

MEMORANDUM FOR: Chief, Audit Staff

VIA: Inspector General

FROM: Robert W. Magee  
Director of Personnel

SUBJECT: Reply to Audit Report, Government Employees Health Association, Inc., 1 January-31 December 1984

REFERENCE: Memo frm C/Audit Staff, dtd 11 Oct 85, Same Subject

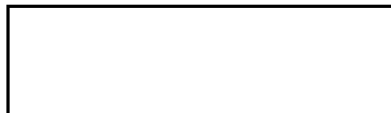
1. In response to the referenced audit report, the following corrective actions have been or are being taken on behalf of the Government Employees Health Association, Inc. (GEHA) by the Insurance Operations Division (IOD):

Recommendation No. 1: Compensate the nonexempt employees for their donated overtime.

The Insurance Operations Division has contacted the Office of Finance and arranged to copy the Time and Attendance records for the pay periods in question so that amended T&A's may be submitted for the donated overtime performed by FLSA nonexempt employees in 1984. All nonexempt employees were directed in January 1985 and reminded again in August 1985 to only work overtime that has been approved in advance and to claim that overtime on the Time and Attendance cards for payment.

Recommendation No. 2: Formalize an agreement with BEA which states the Board's current investment objectives and strategies.

The GEHA Board of Directors tentatively approved a new BEA Agreement in March 1985 pending clarification of the need to require BEA to follow the Federal Procurement Regulations. The Office of General Counsel is providing that clarification. The Board of Directors will discuss the agreement at the 9 December 1985 meeting and should approve it at that time.



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Recommendation No. 3: Retain a copy of prenumbered cash receipts issued to policyholders; attach receipts to cash vouchers.

Copies of the prenumbered cash receipts (Form 102a) are now being attached to the cash vouchers and are retained in IOD.

Recommendation No. 4: Segregate the duties of receiving and recording cash.

Recommendation No. 5: Limit the cashiers' edit capabilities

Segregation of the duties in our Cashiers Office at Headquarters has now been accomplished to the greatest extent possible considering current staffing. The responsibilities of receiving and recording daily cash transactions are now being performed by two employees. If one of those two employees is absent, however, there may be instances when the same individual who collects the cash also prepares the daily voucher. This situation will be alleviated by the filling of a current vacancy which will return the staff to its authorized level of three employees.

IOD has taken steps to limit the editing capabilities of the cashiers by dividing the editing and inputting duties between the two cashiers. But again, with the shortage of personnel, it is difficult to guarantee this procedure at all times. We understand that our new automated system, Claims, Accounting, Insurance System will provide inputting/editing locks. Until the automation is operational (scheduled for March 1987), IOD will continue to monitor the situation and ensure that editing and inputting are separated to the greatest extent possible.

Recommendation No. 6: Prepare annual financial statements for Board and membership information.

An annual financial statement will be prepared following completion of the GEHA fiscal year which ends 31 December 1985 and distributed to the GEHA Board of Directors and members at the annual meeting in January 1986.

Recommendation No. 7: Reconcile the CHI premium general ledger accounts at least quarterly.

The Contract Health Insurance (CHI) account is now being reconciled monthly. We have requested an audit team member review the reconciliation procedure to ensure it is acceptable.

Recommendation No. 8: Obtain a qualified accountant at the earliest possible date.

The Office of Finance (OF) has nominated and we have accepted a candidate to join the Insurance Operations Division as the Chief, Accounting and Records Branch. However, to date, this candidate has not been released by OF for reassignment.

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2. My officers in IOD have informed me that your audit team was one of the most professional groups with which they had ever dealt. On several occasions, [ ] came in on Saturday to help the Accounting Technician find a discrepancy in the outstanding reimbursements. Will you please pass along my sincere appreciation to [ ] for his assistance, as well as to [ ]

[ ] who also provided invaluable advice to IOD during the course of this audit.

3. Should you have any question related to our response or desire additional information, please telephone [ ] Chief, Insurance Operations Division, on secure extension [ ]

Robert W. Magee

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Office of  
Personnel Management

Washington, D.C. 20415

In Reply Refer To

Your Reference

STAT

[Redacted]  
Government Employees Health  
Association, Inc.  
P.O. Box 463  
Washington, D.C. 20044

NOV 27 1985

STAT

Dear [Redacted]

Enclosed are four copies of the Office of Personnel Management's audit report No. E-86-004 of your third party administrator, Joseph E. Jones Agency. This audit was prepared by representatives of the Office of Inspector General pursuant to contract number CS 1065 5 CFR Chapter 1, Part 890, and 41 CFR Chapter 1.


Please acknowledge your receipt of this report within ten days.

The Joseph E. Jones Agency administered several FEHB plans during the period covered by this audit. This report, therefore, is only one of several reports issued on that agency's FEHBP administration activities. Because the report covers Joseph E. Jones' activities, we have sent an information copy directly to them.

OPM looks to you as prime contractor to respond to the issues raised in the audit. Because there are several different FEHBP Plans involved in the results of this audit all dealing with essentially similar questions, the Joseph E. Jones agency has designated Mr. Harris Havard as the central contact point between your plan and the agency. Mr. Havard may be reached on (202) 797-6725.

Please review the report's recommendations and provide a written response within 45 days of your receipt of the report.

Sincerely,

  
Kevin J. Burns, Assistant Director  
for Insurance Programs

GOVERNMENT EMPLOYEES HEALTH ASSOCIATION

P.O. BOX 463  
WASHINGTON, D.C. 20044


December 5, 1985

Mr. Kevin J. Burns, Assistant Director for  
Insurance Programs  
Office of Personnel Management  
Washington, D.C. 20415

Dear Mr. Burns:

This is to advise you that we received your letter of November 27, 1985 and copies of the Audit Report of the Joseph E. Jones Agency on December 2, 1985. As you requested, we will review the report and provide our response by January 16, 1986, 45 days from the receipt of the report.

Sincerely,

  
Secretary

STA

GOVERNMENT EMPLOYEES HEALTH ASSOCIATION

P.O. BOX 463  
WASHINGTON, D.C. 20044

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Sincerely,

[Redacted Signature]

Secretary

STAT



United States  
Office of  
Personnel  
Management

AUDIT REPORT

Federal Employees Health Benefits Program  
Joseph E. Jones Agency - Administrator:

Government Employees Health Association, Inc.,  
Association Benefit Plan  
Plan 42, Contract CS 1065

Washington, DC.

Report No. E-86-004      Date 10-24-85

Office of the Inspector General



United States  
**Office of  
Personnel Management**

Washington, D.C. 20415

In Reply Refer To

Your Reference

AUDIT REPORT

Federal Employees Health Benefits Program  
Joseph E. Jones Agency - Administrator:

Government Employees Health Association, Inc.,  
Association Benefit Plan  
Plan 42, Contract CS 1065

Washington, D.C.

Report No. E-86-004 Date 10-24-85

A handwritten signature in dark ink, appearing to read "Joseph R. Willever".

Joseph R. Willever  
Acting Inspector General

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I. INTRODUCTION

We completed a close-out audit of the Association Benefit Plan operations at the Joseph E. Jones Agency (Administrator) for the years 1981 and 1982. The audit was conducted pursuant to 5 U.S.C. Ch. 89; 5 CFR Ch. 1, Part 890; 41 CFR 1-15 and the terms of Contract CS 1065.

The Joseph E. Jones Agency is composed of three affiliated companies as follows:

Joseph E. Jones Partnership,  
United Insurance Services, Inc. and  
International Insurance Counselors, Inc.

While the total charges to the Association Benefit Plan contract are generated by all three of the affiliated companies, the principle contract administrator appears to be Joseph E. Jones, individually (i.e. none of the affiliated companies is contractually responsible for the administration of the Association Benefit Plan contract). During the period of our review the Administrator serviced the AFGE Health Benefit Plan, the Foreign Service Benefit Plan and the Association Benefit Plan. Accordingly, the Federal Employee Program (FEP) subscriber claims submitted to these Plans were processed and paid by the Administrator. As of July 1, 1982, all Plans came under the administration of Mutual of Omaha.

The Plans are all underwritten by the Mutual of Omaha Insurance Company, Omaha, Nebraska. Joseph E. Jones (individually) is the Mutual of Omaha - Washington Metropolitan Area General Agent (i.e. all Mutual of Omaha insurance written in the Washington metropolitan area is written through Joseph E. Jones).

This audit report contains the results of our audit of the Jones Agency as it effects the Association Benefit Plan. The Association Benefit Plan is sponsored by the Government Employees Health Association, Inc. (GEHA) under OPM Contract CS 1065. The Association Benefit Plan is open only to members of GEHA and no Associate memberships are offered to other Federal employees. The Administrator processes and pays only those claims submitted by retired members of GEHA. Health claims for active members of GEHA are processed and paid under other arrangements.

Our last audit (No. E-83-001, dated February 18, 1983) on the Joseph E. Jones Agency covered the years 1976 through 1980, and all findings from that report have been resolved.

The results of our on-site examination were provided to the Joseph E. Jones Agency by written Informal Audit Inquiries and were discussed with Joseph E. Jones Agency's management officials at an exit conference. Our draft audit report (E-85-005-D) was issued on June 25, 1985. The Administrator replied to the draft audit report on October 21, 1985.

The Administrator's written and verbal comments expressed during the course of the audit and in reply to the audit inquiries and the draft report were considered in the preparation of this report. The Administrator's comments are attached to this report as Appendix B.

II. SCOPE OF AUDIT

The audit was performed in accordance with generally accepted Government auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We selectively reviewed administrative expenses charged to the Contracts for the years 1981 and 1982. Our review of administrative expenses was based on the terms of the Contract and the cost principles prescribed by 41 CFR, Part 1-15 to determine the allowability, allocability and reasonableness of the charges to FEP.

The objectives of our audit were to determine whether costs were charged to the FEP and services were provided to FEP subscribers in accordance with the terms of the Contracts. We also sought to determine if the Administrator's policies and procedures resulted in efficient, effective and economical operations.

III. FINANCIAL DATA

JOSEPH E. JONES AGENCY	'81 GEHA	'82 GEHA
1. SUBSCRIPTION INCOME		
a. Received		
(1) Semi-monthly	17297681	20814578
(2) Contingency Res.	500000	3369100
b. Accrued, but unpaid		
(1) Beginning	-2200000	-2200000
(2) Ending	2200000	2900000
c. Total	<u>17797681</u>	<u>24883678</u>
2. HEALTH BENEFITS CHGS.		
a. Paid	17704608	21077047
b. Accrued, but unpaid		
(1) Beginning	-4066674	-4497096
(2) Ending	4497096	5320000
c. Total	<u>18135030</u>	<u>21899951</u>
3. EXPENSES		
a. Admin. Expenses		
(1) Organization	444942	622092
(2) Administrator	442785	275044
(3) Underwriter	134212	384120
b. Premium Taxes	422760	463247
c. State Stat. Reserves	0	0
d. Service Charge	81500	140000
e. Total	<u>1526199</u>	<u>1084503</u>
4. GAIN (LOSS)		
a. On cur. subscriptions	-1863548	1099224
b. Investment Income	280742	161277
c. Prior Period Adjust.	0	0
d. Special Reserve-Begin	2335352	752546
e. Special Reserve-Ending	752546	2013047
=====	=====	=====

QUESTIONED AMOUNTS:  
SEE SECTION VI.

IV. SUMMARY OF RESULTS OF AUDIT

Our review of the Association Benefit Plan operations performed by the Joseph E. Jones Agency resulted in the following:

	<u>Amount Questioned</u>	<u>Contractor Agrees</u>	<u>Disagrees</u>
1. For 1981 and 1982, the Administrator charged the Association Benefit Plan \$23,442 for rent which was in excess of the costs of ownership of the premises occupied. Such excess charges for rent are not allowed under the Federal Procurement Regulations. The Administrator also overcharged the Association Benefit Plan \$4,352 because of an accounting error and \$1,199 because of an idle space error.	\$28,993	\$5,551	\$23,442
2. The Administrator overcharged the Association Benefit Plan \$929 for reapportionment ratio errors in 1981 and 1982.	929	929	--
3. The Administrator understated 1981 and 1982 postage charges.	(379)	(379)	--
4. The Administrator inappropriately charged Salary and Payroll Taxes past the Joseph E. Jones Agency's FEP participation cut off date.	2,370	--	2,370
5. The Administrator overstated Employee Relations charges.	615	615	--
6. As a result of Audit Findings 1 through 5 the Administrator should adjust the overhead for 1981 and 1982.	<u>6,414</u>	<u>1,324</u>	<u>5,090</u>
Total Questioned	<u>\$38,942</u>	<u>\$8,040</u>	<u>\$30,902</u>

V. AUDIT FINDINGS

1. Rent versus Ownership

\$28,993

Our audit disclosed that for the years 1981 and 1982, the Administrator overcharged the Association Benefit Plan, as direct charges against the contract, for rent which was in excess of the costs of ownership, for idle space, and for an accounting error as follows:

	<u>1981</u>	<u>1982</u>	<u>Total Association Benefit Plan Allocation</u>
Excess of Rent over Ownership (Direct)	\$ 9,685	\$ 9,666	\$19,351
(Overhead)	<u>3,183</u>	<u>908</u>	<u>4,091</u>
Subtotal	\$12,868	\$10,574	\$23,442*
Accounting Error	0	4,352	4,352
Idle Space	<u>\$ 1,199</u>	<u>0</u>	<u>\$ 1,199</u>
	<u>\$14,067</u>	<u>\$14,926</u>	<u>\$28,993</u>

Administration of the FEP programs is conducted in its entirety at 1666 Connecticut Avenue, N.W., Washington, D.C.. The building is owned jointly by the Joseph E. Jones Partnership (as a partnership landlord) and a corporation. The partners of the Joseph E. Jones Partnership are Joseph E. Jones and his wife, each partner owning a 43 percent interest in the building. The remaining 14 percent ownership of the building is held by a corporation which, in turn, is also fully owned by Joseph E. Jones and his wife.

Since the building is wholly owned (directly and indirectly) by Joseph E. Jones, we believe that the requirements of the Federal Procurement Regulations (FPR's) 41 CFR, Part 1-15.205-34(g) are applicable. These provisions state, in part:

"Charges in the nature of rent between any division, subsidiary, or organization under common control are allowable to the extent such charges do not exceed the normal costs of ownership, such as depreciation, taxes, insurance, and maintenance (excluding interest or other unallowable costs pursuant to this Part 1-15)..."

\* See Appendix A.

Accordingly, we believe that the Association Benefit Plan contracts administered by Joseph E. Jones were overcharged \$19,351 for rent (Direct) and \$4,091 for rent (Overhead) in excess of ownership costs during 1981 and 1982.

In CY 1982, the Administrator overcharged the Association Benefit Plan \$4,352 for idle floor space. From February 1982, through June 1982, the Administrator was holding 7017 square feet of floor space for future expansion, but he charged for full floor (10,851 sq. ft.). In CY 1981, the Administrator charged for 384 square feet of idle floor space directly that should have been charged to overhead (Indirect Costs). The result was a \$1,199 overcharge.

Appropriate overhead adjustments for excess of rent over ownership is included in this finding, but overhead for the accounting error and idle space is included in Audit Finding 6. (Overhead Adjustments).

Administrator's Comments:

The Administrator agreed that the findings related to the overcharges for idle floor space are appropriate.

The Administrator does not agree to the portion of the finding related directly to the rent charges which were determined to be in excess of the cost of ownership. The Administrator pointed out that this same issue arose with respect to a previous audit and for the same reasons prevailing then, rent charges are again proper now. The Administrator contends that OPM conceded the issue during negotiations of the prior audit and that the Administrator is entitled to rely upon OPM's previous allowance of the rent charges until such time as OPM provides formal notice to the contrary. The Administrator claims that it was explicitly agreed that the same method would be used for determining the 1981-82 charges as was used for the previous period.

The Administrator further stated that even if the questioning of the costs in the prior audit was construed as providing notice of the unallowability of the costs, the challenge by OPM was not made until 1983, a full year after the period of the audit in question here closed. Had OPM informed the Administrator of this principle before 1981, then perhaps an adjustment would have been proper.

Inspector General's Analysis of Administrator's Comments:

The Administrator is correct in his reply that the costs of rent in excess of the costs of ownership of the Administrator's building were an issue in our previous audit of the Administrator's operations (the previous audit scope included the years 1976 through 1980). The Administrator is incorrect, however, in the claim that OPM conceded the issue. In fact, the Administrator agreed to the disallowance upon the issuance of our audit inquiry and also agreed to the disallowance in reply to our draft report. Upon issuance of the final report, the Administrator continued to agree to the disallowance and, in fact, agreed to make the appropriate adjustments on the Annual Accounting Statements for each of the FEHBP plans serviced during the period audited.

We have no knowledge of any concession by OPM on this issue in the past and we know of no agreement which would permit the charging of rent in excess of ownership costs for the period of this audit. Accordingly, we continue to believe that the amounts questioned should be returned to the FEHBP from the Administrator.

Recommended Corrective Actions:

- a. We recommend that the Contracting Officer disallow \$23,442 for the rent charged in excess of the cost of ownership which had been charged to the Association Benefit Plan contract administered by the Administrator.
- b. We recommend that the Contracting Officer disallow \$4,352 for an accounting error in CY 1982.
- c. We recommend that the Contracting Officer disallow \$1,199 for an idle space overcharge in CY 1981.
- d. The amounts disallowed should be credited to the Association Benefit Plan contract on the next Annual Accounting Statement submission.

2. Reapportionment Ratio Errors \$ 929

The Joseph E. Jones Agency used a ratio of Federal program drafts to total program drafts to allocate costs of the Group Claims Division to its Federal and Non-Federal segments. In 1982, incorrect statistics were used in calculating the Association Benefit Plan ratio.

Questioned overhead resulting from the reapportionment ratio error described (above are included in Audit Finding 6. (Overhead Adjustments)).

Administrator's Comments:

The Administrator concurred with the audit finding.

Recommended Corrective Action:

We recommend that the Contracting Officer require the Administrator to credit the Association Benefit Plan Special Reserves \$929 in order to adjust 1982 reapportionment charges to the proper amounts.

3. Postage Charges \$ (379)

Direct charges to the Association Benefit Plan for postage costs in 1981 and 1982 were understated by \$379.

Appropriate overhead adjustments for these undercharges to the Association Benefit Plan contract are included in Audit Finding 6. (Overhead Adjustments).

Recommended Corrective Action:

We recommend that the Contracting Officer allow the Administrator to charge the Association Benefit Plan \$379 for postage charges.

4. Salary and Payroll Tax Charges \$2,370

The Joseph E. Jones Agency's participation in the Association Benefit Plan for 1982 was for the period January 1 through June 30, 1982. All administrative expenses, with the exception of Salary and Payroll Taxes, had a June 30, 1982, close of business cut-off date. For the convenience of the Administrator, Salary and Payroll Taxes were cut-off at the end of the pay period, July 2, 1982 (two days after the services were terminated).

In our opinion, all of the Administrator's expenses, including Salary and Payroll Taxes, should be adjusted to include only the period January 1 through the proper cut-off date of June 30, 1982.

Based on our analysis, the Association Benefit Plan was inappropriately charged \$2,370 for Salary and Payroll Taxes for July 1 and 2, 1982.

We note that Mutual of Omaha (the Underwriter) took over the Joseph E. Jones Agency's claim payment operations effective July 1, 1982. Accordingly, Salary and Payroll Taxes for the two day period should be charged by the Underwriter, thereby eliminating the possibility of duplicate charges to the Association Benefit Plan.

Appropriate overhead adjustments for these overcharges to the Association Benefit Plan contract are included in Audit Finding 6. (Overhead Adjustments).

Administrator's Comments:

The Administrator commented that although the contract between the Administrator and Mutual of Omaha specified that the Administrator's services were to terminate on June 30, 1982, the Administrator continued its services through August, 1982. Prior to the June 30, termination date, Mutual of Omaha requested that the Administrator's services be extended until August 31, as it was unprepared to take over these services on July 1, 1982.

Subsequently, two billings were submitted to Mutual of Omaha. The first covered the period January 1, 1982 through June 30, 1982 and included salaries and payroll taxes for the first two days of July, the end of the payroll period. The second billing covered July and August and excluded the cost of rent and included adjustments to salaries and payroll taxes to offset those charged for the first two days of July.

Inspector General's Reply to Administrator's Comments:

During the course of our audit, the Administrator did not advise us of the extension of its contract with Mutual through August 31, 1982. Consequently, our audit scope was limited to the period ending June 30, 1982. Costs incurred for July and August remain unaudited, including the costs of the second billing discussed above by the Administrator.

In any event, the Administrator did not submit any documentation to substantiate its claim that duplicate charges were not made for the salaries and payroll taxes for July 1 and 2, 1982. Since our only concern is that of possible duplicate charges, submittal of the supporting documentation to the Contracting Officer may resolve this issue.

Recommended Corrective Action:

The Administrator should provide the Contracting Officer with supporting documentation to verify that duplicate charges to the FEHBP did not occur on July 1 and 2, 1982. If adequate supporting documentation is not provided the Administrator should credit the Association Benefit Plan \$2,370 in order to adjust Salary and Payroll Tax charges to the proper cut-off date of June 30, 1982.

5. Employee Relations Charges

\$ 615

For 1981 and 1982, the Administrator's schedules summarizing Employee Relations expenses overstated the actual expenses billed by \$615.

Appropriate overhead adjustments for these overcharges to the Association Benefit Plan contract are included in Audit Finding 6. (Overhead Adjustments).

Administrator's Comments:

The Administrator agreed with this finding.

Recommended Corrective Action:

We recommend that the Contracting Officer require the Administrator to credit the Association Benefit Plan \$615 on the next Annual Accounting Statement.

6. Overhead Adjustments

\$ 6,414

As a result of Audit Findings 1 through 5 (above), the following adjustments to the Association Benefit Plan overhead are appropriate:

<u>Year</u>	<u>O/H Rate</u>	<u>Questioned Overhead</u>
1981	25.86%	\$2,795
1982	20.5266%	3,619
Total		<u>\$6,414</u>

We recognize that the final amount of this finding will change with the final settlement of findings 1 through 5.

Recommended Corrective Action:

We recommend that the Contracting Officer require the Administrator to credit the Association Benefit Plan Special Reserves \$6,414 on the next Annual Accounting Statement in order to adjust 1981 and 1982 overhead charges to the proper amounts.

VI. ACCOUNTING STATEMENT ADJUSTMENTS-QUESTIONED CHARGES

AUDIT FINDING-GEHA ONLY		CY1981	CY 1982	TOTAL
INQ#				
	ADMINISTRATIVE EXPENSES	*	*	*
-----*				
1	B-4 RENT VERSUS OWNERSHIP-DIR	\$10,884*	\$14,018*	\$24,902*
2	B-5 REAPPORTIONMENT RATIO	0*	929*	929*
3	B-6 POSTAGE CHARGES	-432*	53*	-379*
4	B-7 SALARY & PAYROLL TAXES	0*	2,370*	2,370*
5	B-8 EMPLOYEE RELATIONS CHGS.	355*	260*	615*
	Subtotal	\$10,807*	\$17,630*	\$28,437*
1	B-4 RENT VERSUS OWNERSHIP-O/H	3,183*	908*	4,091*
6	B-9 OVERHEAD ADJUSTMENT	2,795*	3,619*	6,414*
-----*				
	TOTAL	\$16,785*	\$22,157*	\$38,942*
=====				

ALL AMOUNTS ARE EXPRESSED  
IN WHOLE NUMBERS.

## Appendix A-JOSEPH E. JONES AGENCY RENT

	<u>1981</u>	<u>1982</u>	<u>TOTAL</u>	<u>GEHA</u>
EXPENSES-75957 SQ FT				
MANAGEMENT FEE	125104	64991		
DEPRECIATION	86306	36140		
INSURANCE	32081	14601		
TAXES	<u>111026</u>	<u>60744</u>		
SUBTOTAL	<u>354517</u>	<u>176476</u>		
PER SQ FT	<u>4.67</u>	<u>2.32</u>		
EXPENSES-65106 SQ FT				
MAINTENANCE	62918	33169		
MISCELLANEOUS	9083	5443		
RENOVATIONS	58265	1075		
REPAIRS	36841	21432		
SALARIES	134992	68979		
SECURITY	27190	14250		
UTILITIES	<u>100163</u>	<u>53577</u>		
SUBTOTAL	<u>429452</u>	<u>197925</u>		
PER SQ FT	<u>6.60</u>	<u>3.04</u>		
GRAND TOTAL	<u>783969</u>	<u>374401</u>		
 COST OF OWNERSHIP PER SQUARE FOOT	 11.27	 5.36		
-----				
RENT CHARGED:				
Direct (Per Inq. B-4)	165777	165356	\$331133	
less Idle Space Find.	6420	0	-6420	
less Acctg. Error Fin	0	22727	-22727	
Subtotal	<u>159357</u>	<u>142629</u>	<u>\$301986</u>	
LESS COST OF OWNERSHIP				
9537 sq ft X \$11.27	107482		-107482	
9537 sq ft X \$5.36(4)		51118	-51118	
10851 x \$5.36/6 (3)		9694	-9694	
7017 x \$5.36/6 x 5 (3)		<u>31343</u>	<u>-31343</u>	
Dir. Rent OVERCHARGE	<u>51875</u>	<u>50474</u>	<u>\$102349</u>	\$19,351
 Overhead Rent(Inq.B-4)	60677	26599	\$87276	
LESS COST OF OWNERSHIP				
O/H Sq ft to Federal				
6136 x 63.0933%*=3871				
3871 x \$11.27	43626		-43626	
6136 x 66.4524%*=4078				
4078 x \$5.36		<u>21858</u>	<u>-21858</u>	
O/H Rent Overcharge	<u>17051</u>	<u>4741</u>	<u>\$21792</u>	4,091
-----				
TOTAL OVERCHARGE	68926	55215	\$124141	\$23,442
=====				
*Federal Overhead to				
Total Overhead				
(4)-Fourth Floor				
(3)-Third Floor				

CHARTERED  
SUITE 900  
1029 VERMONT AVENUE, N. W.  
WASHINGTON, D. C. 20005  
(202) 393-3800

October 21, 1985

Joseph R. Willever  
Acting Inspector General  
Office of Personnel Management  
1900 E Street, N.W.  
Washington, D.C. 20415

Re: Draft Report of Audit -- Joseph E. Jones Agency  
Report E-85-005D

Dear Mr. Willever:

This will respond to the draft audit report dated June 25, 1985 of the Joseph E. Jones Agency. There are a number of findings to which we take exception and which are noted below.

As an initial matter, we take exception to audit finding V(4) challenging the salary and payroll tax charges. While the audit report states that the Jones Agency was to have responsibility for administering the FEHB Plan for only the first six months of 1982, in fact the Jones Agency administered the plan until August 31, 1982.

Specifically, a contract between Mutual of Omaha and the Jones Agency provided that the agency would terminate its responsibility as Administrator of the three FEHB Plans effective June 30, 1982. However, just prior to the Agency's termination date, Mutual of Omaha requested that the Agency furnish claims paying services under the FEHB Plans until August 31, 1982 as it was unprepared to take over these services on July 1, 1982. The Agency consented to this request, performed the services and billed Mutual of Omaha for them as of August 31, 1982.

Two billings were submitted to Mutual of Omaha for servicing the FEHB Plans through August 31, 1982. The first covered the period from January 1, 1982 through June 30, 1982 and included salaries and payroll taxes for the first two days of July 1982, the end of the pay period. The second covered July and August, 1982, which excluded the cost of rent and included adjustments to salaries and payroll taxes to offset those charged for the first two days of July, 1982. Thus, while the original contract provided for the Jones Agency to administer the plans through June 30, 1982, this was subsequently amended at Mutual of Omaha's

Received OIG  
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by  
Messenger

Joseph R. Willever

October 21, 1985

Page 2

request. For administrative ease, the Agency adjusted the salaries and payroll taxes upon completion of the additional services.

Second, we take exception to Audit Finding V(1) -- Rent versus Ownership -- in your June 25, 1985 draft audit report. Specifically, we submit that the rent is properly charged and thus your suggestion of an overcharge of \$124,141 is in error. As you are aware, this same issue arose with respect to the 1976-80 audit and, for the same reasons prevailing then, rent charges are again proper now.

In connection with the 1976-80 audit, we argued, and OPM conceded, that rent rather than cost of ownership was properly utilized. This was true with respect both to years in which cost of ownership exceeded rent charges and those in which rent exceeded cost of ownership. Moreover, it was explicitly agreed that the same method would be used for determining the 1981-82 charges as had been used for the 1976-80 audit. Nothing has changed with respect to these last two years and thus we are puzzled by your challenge of this charge.

In interpreting federal procurement contracts, courts and administrative tribunals have placed great emphasis on the parties' past constructions of the contractual provisions. It is well established that when the government is advised of the contractor's interpretation of a provision and the government accepts it, the government is bound by this interpretation. See Appeal of Astro Dynamics, Inc., NASA BCA 1067-38, 74-1 BCA 10634 (1974); Appeal of American Electric, Inc., ASBCA 16635, 76-2 BCA 12151 (1976). Of course, not only did OPM acknowledge that rent rather than cost of ownership was proper for 1974 and 1975, but it acquiesced when it accepted these charges after initially challenging them in connection with the 1976-80 audit. In these circumstances, the government is estopped from penalizing Joseph E. Jones Agency for acting in accordance with accepted practices. See Penn-Ohio Steel Corp. v. United States, Ct. Cl. 1064 (1965); Appeal of Covington Industries, ASBCA 12426, 68 BCA-2 7286 (1968).

At bottom, the Jones Agency is entitled to rely upon OPM's previous allowance of the rent charge until such time as OPM provides formal notice to the contrary. Had the Jones Agency known that its rent charge would be disallowed, it would not have rented the space to Mutual of Omaha as it did. Instead, it would have let the space on the commercial market, and, in all likelihood, obtained more than the \$11.00 per foot charged here and certainly more than the "cost of ownership." Even if OPM's

Joseph R. Willever  
October 21, 1985  
Page 3

challenge to the rent charge with respect to the 1976-80 audit could be construed as providing such notice, which, given that OPM allowed the rent charge would seem dubious, it did not make this objection until 1983, a full year after the period of the audit in question here closed. Had OPM informed the Jones Agency that it would not allow this allocation method before 1981, or had it simply voiced concern over this method, then perhaps an adjustment would be proper. But since OPM did not raise this matter until 1983, and even then it accepted this allocation method, it cannot retroactively change its interpretation of the controlling provisions in the face of the Jones Agency's detrimental reliance on its previous acquiescence.

For these reasons we urge OPM to allow the rent charges with respect to the 1981-82 audit and to reject the \$12,374 adjustment with respect to salaries and payroll taxes. The Jones Agency has been operating over the last eight years with the understanding, endorsed by OPM, that the rent charges were proper. It is simply too late in the day now to contend that some other allocation method is required. With respect to salaries and payroll taxes, the audit simply fails to consider the additional two month period beyond the original contract during which the Agency administered the Plans at Mutual of Omaha's request.

Finally, although the audit report does not mention it, we maintain that a 10% management fee is appropriate for the years 1981-82. While we accepted a lower rate for the previous audit period, we specifically stated that our acceptance of this reduced rate would not bind us in the future. For the reasons we proffered in response to the previous audit report, we maintain that a 10% management fee is necessary and appropriate here.

Very truly yours,

  
Irving Kator

IK:nbi

Government Employees Health Association, Inc.

For the Period

1 January 1984 - 31 December 1984

DRAFT

SUMMARY

1. Internal controls and procedures governing the custody and use of Government Employees Health Association, Inc. (GEHA) assets were generally effective and in accordance with applicable requirements. This report contains recommendations concerning formalizing investment policy, determining the amount of and reimbursing for unpaid overtime, preparing periodic financial statements, reconciling certain general ledger accounts with their subsidiaries, improving cashier procedures, and assigning a finance officer to GEHA. Minor administrative matters, including electronic fund transfers of payroll withholding and Agency contributions for health insurance and a missing policyholder file for a \$36,000 death claim payment, were discussed with responsible officials who indicated that they would take appropriate action.

SCOPE

2. The audit included an examination of the GEHA statement of financial position as of 31 December 1984 and 1983 and the related statements of changes in reserve fund balances and changes in financial position for 1984. Our examination was made in accordance with generally accepted auditing standards

DRAFT

and, accordingly, included such tests of the accounting records and other auditing procedures, including a review of claim settlement procedures, as we considered necessary under the circumstances. We did not review the adequacy of the reserve account balances; however, both the Associated Benefit Plan and UBLIC reserve balances were reviewed for adequacy by outside consultants during 1984.

3. In our opinion, the accompanying financial statements, Exhibits A, B and C, present fairly the financial position of GEHA at 31 December 1984 and 1983 and the results of its operations for the year ended 31 December 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

GENERAL

4. GEHA is a tax-exempt organization incorporated in the District of Columbia to administer employee insurance programs in accordance with Agency operational and security requirements. An elected Board of Directors prescribes GEHA operating policies. The daily business is conducted by the Insurance Division, Office of Personnel. GEHA reimburses the Agency for the services of [redacted] employees in the Insurance Branch.

1 P. 2

CONFIDENTIAL

25X1

5. GEHA maintains  insurance accounts for active and retired employees. The following plans are in effect:

PLANS

ACCOUNTS

**DRAFT**

Life Insurance:

United Benefit Life Insurance Company  
Active  
Retired

Worldwide Assurance for Employees  
of Public Agencies

Health Insurance:

Association Benefit Plan  
Active  
Retired

Contract Hospitalization

Specified Diseases

Disability Insurance:

Income Replacement

Accidental Death and Dismemberment Insurance:

Group Accident Plan

Travel Insurance:

Air Flight

Military Air Flight

25X1

6. The Association Benefit Plan received premiums of \$ million, paid out benefits of \$ million, and incurred net operating expenses of \$ million for a net underwriting gain of \$ million in 1984.

DETAILED COMMENTS

Investment Objectives

7. GEHA and Basic Economic Analysis (BEA), GEHA's investment management firm, have not contractually agreed to the revised investment objectives and instructions for BEA approved by the GEHA Board of Directors in October 1982. As a

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result of the 1980 audit report, GEHA formed an investment committee to review the investment objectives and policy. This committee expanded upon the investment objectives and instructions outlined to BEA in the original 1976 agreement. Even though the GEHA Board of Directors approved the new BEA guidelines, the two companies have not formalized the changes. During the March 1985 Board meeting the BEA agreement was again discussed and a new contract was written and sent to the Office of General Counsel for their review. BEA should have a formal agreement to insure that GEHA's investment objectives are clear and contractually agreed upon.

Recommendation #1 (for Board of Directors action):

Formalize an agreement with BEA which states the Board's current investment objectives and strategies.

Overtime

8. During 1984 GEHA personnel worked overtime hours but did not receive compensation. The Fair Labor Standards Act (FLSA) and Agency regulations require that nonexempt employees be paid for worktime exceeding the 40 hour workweek including the time which the employer "suffers or permits" to be worked. A tabulation of donated time was included in weekly reports to GEHA management for a ten week period in late 1984. During that time approximately 95 hours of overtime, which included approximately 23 hours for exempt personnel, was donated by GEHA staff. We were unable, in the time available, to

determine if these hours were the only hours donated by GEHA personnel. GEHA has since stopped the practice of donated overtime.

Recommendation #2: Reimburse those employees who donated overtime hours and who were nonexempt under FLSA.

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#### Financial Statements

9. Although GEHA prepares an annual trial balance of the accounting records, the prior audit report recommended that annual financial statements should also be prepared. GEHA responded that financial statements would be prepared for 1984, but this was not done. As stated in our last report, generally accepted accounting principles require that financial statements be prepared to show how resources have been used to carry out stated objectives. The report should be available for use by the GEHA Board of Directors and for review by GEHA membership.

Recommendation #3: Prepare annual financial statements for Board and membership information.

#### Reconciliation of General Ledger Accounts

10. The general ledger accounts recording premiums received for contract employees hospitalization insurance (CHI) have not been reconciled with supporting records. The prior two audit reports recommended that these accounts be reconciled at least quarterly; however, the last complete reconciliations were those prepared by the auditors as of 30 June 1983. During 1984

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the audit staff assisted GEHA personnel in the beginning stages of these reconciliations, but the reconciliations were never completed. Without an automated accounting system these reconciliations involve tedious manual computations of sub-account balances, but as stated in a previous audit report, periodic reconciliations help identify and resolve differences in a timely fashion.

Recommendation #4: Reconcile the CHI premium general ledger accounts at least quarterly.

11. Internal controls and procedures pertaining to the receipt and recording of cash received for premiums needs to be strengthened. Currently, the insurance cashiers issue a prenumbered receipt to policyholders who remit cash for premiums. The receipt is used to complete the policy application and to balance the daily cash balance but the receipt is then destroyed. Prenumbered receipts should be used to verify that all cash received is recorded in GEHA's records and should be retained for audit. Without retention of the prenumbered receipts there is no verification or audit trail. Furthermore, the cashiers who receive the cash premiums input the payments received into the policy subsidiary records and also have the capability of editing the subsidiary records. Segregation of duties, especially when the original supporting

Receipt  
Verification  
Multi-part  
Form -  
to stream-  
page flow

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*Segregate duties*  
*prevent fraud*  
*by*  
*building***DRAFT**

documentation for transactions is not retained, is an important internal control over assets as it tends to prevent errors and possible malfeasance by providing independent checks.

Recommendation #5: Retain a copy of prenumbered receipts issued to policyholders remitting premium payments and verify the receipts to policy records.

Recommendation #6: Consider segregating or limiting the cashiers' input and edit capabilities.

#### Finance Officer

12. The magnitude and complexity of GEHA financial operations has created the need for a finance officer to prepare the accounting and financial records. During 1984 GEHA processed 38,245 health claims most of which involved at least one cash disbursement. At 31 December 1984 GEHA had 11 bank accounts through which they processed 28,529 checks during 1984. In addition to these cash transactions, financial records are also maintained for the investments and premium withholdings and payments.

13. The recommendations in this report concerning the preparation of financial statements and the reconciliation of the CHI premium accounts were recommended in prior audit reports. GEHA should be in a better position to comply with these recommendations once a finance officer is in place. We

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understand that GEHA management and the Office of Finance are currently working on assigning a finance officer to GEHA. We want to emphasize the importance of that assignment.

Recommendation #7: Continue efforts to place  
a finance officer at GEHA.

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Exhibit A

DRAFT

Government Employees Health Association, Inc.  
Statement of Financial Position  
31 December 1984 and 1983

ASSETS

	<u>1984</u>	<u>1983</u>
Cash	\$ 751,541	\$ 489,923
Investments (Note 1)	6,562,247	6,036,591
Claims receivable	37,805	130,359
Interest receivable	88,463	
Contingent assets:		
Funds withheld by underwriter for specified policyholders	99,000	99,000
Less: Reserves	(99,000)	(99,000)
Equipment	2,890	2,890
Less: Depreciation	(2,890)	578
Total assets	<u>\$7,440,056</u>	<u>\$6,657,451</u>

LIABILITIES AND RESERVES

Accounts payable	\$ 35,551	\$ 27,795
Prepaid premiums	124,289	197,783
Accrued salaries	66,462	11,774
Accrued dependent premiums	<u>15,890</u>	<u>16,537</u>
Total liabilities	\$ 242,192	\$ 253,889
Reserves (Exhibit B)	<u>7,197,864</u>	<u>6,403,562</u>
Total liabilities and reserves	<u>\$7,440,056</u>	<u>\$6,657,451</u>

Note 1: Investments are recorded at cost; market value at 31 December 1984 was \$6,808,800 and at 31 December 1983 was \$6,214,000.

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EXHIBIT B

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Government Employees Health Association, Inc.  
Statement of Changes in Reserve Fund Balances  
For the Year Ended 31 December 1984

DRAFT

	Total	UBLIC Investment in Common Stock	UBLIC General	Association Benefit Plan	Air Flight Plan	Contract Hospital- ization	General Fund
Balance, 1 January 1984	<u>\$6,403,562</u>	<u>\$915,207</u>	<u>\$4,826,557</u>	<u>\$474,726</u>	<u>\$29,409</u>	<u>\$90,151</u>	<u>\$67,512</u>
Increases:							
Premiums withheld from or returned by underwriter	762,480			741,889		20,591	
Investment income	599,045	168,202	403,933	10,184	2,475	5,622	8,629
Gain on sale of investments	280,506	107,319	166,727		1,022	3,117	2,321
Miscellaneous	<u>1,577</u>				<u>656</u>		<u>921</u>
Total increases	<u>1,643,608</u>	<u>275,521</u>	<u>570,660</u>	<u>752,073</u>	<u>4,153</u>	<u>29,330</u>	<u>11,871</u>
Decreases:							
Salaries	655,525		17,621	618,969	3,787	15,148	
Retiree free coverage	77,188		77,188				
Premiums for UBLIC dependent coverage	38,631		38,631		276	842	627
Investment fees and expenses	69,107	22,306	45,056				2,219
Miscellaneous	<u>8,855</u>		<u>1,045</u>	<u>5,591</u>			
Total decreases	<u>849,306</u>	<u>22,306</u>	<u>179,541</u>	<u>624,560</u>	<u>4,063</u>	<u>15,990</u>	<u>2,846</u>
Balance, 31 December 1984	<u>\$7,197,864</u>	<u>\$1,168,422</u>	<u>\$5,217,676</u>	<u>\$602,239</u>	<u>\$29,499</u>	<u>\$103,491</u>	<u>\$76,537</u>

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29 AUG 1985

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act  
8/24

12/31/84

3-4 weeks

Call me

REPORT

The GEHA investment objectives and instructions have not been formally agreed to with BEA. At the Oct 1982 Board meeting the Board agreed to the Investment Committee's proposed expansion of GEHA's objectives and instructions to BEA; namely a 70% fixed asset / 30% equity split with the 70% portion further divided into 1/3 Short term, 1/3 Intermediate, and 1/3 longer term securities. This information was outlined to BEA in Nov 1982 and BEA subsequently assessed the proposal. The Investment Committee's strategy has never been contractually agreed to with BEA.

BEA's \* During 1984 BEA's quarterly reports stated an 80% / 20% split. I-B/2

Recommendation. Reevaluate investment objectives and formalize agreement on investment strategy.

2. A comparison between the 12/31/84 BEA investment listing and the 12/31/84 American Security listing revealed a discrepancy in GEHA bonds held for GEHA. BEA reported a balance of \$291,719 whereas ASB reported \$289,220 resulting in a \$2499 difference.

I-B  
15a  
155

The auditor discovered that BEA had transposed the number of shares but would correct their error immediately.

GEHA bookkeeper should verify corrections on next BEA quarterly statement

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act  
8/26

3. In Sep 1984 a checking account (#101.3) was opened without the Head of Director's approval. This account replaced ac #101.2 which was closed in April 1984. ✓

H-101.3  
3  
ASS  
check acct.  
Bor \*

Have Head ratify, retroactively, the opening of the account.

4. GEHA has 5 individuals with petty cash funds at times ranging from \$10 - \$60 and totaling \$160. Use of these accounts is infrequent. For example, on 8 Aug 1985 the \$5 fund contained receipts totaling \$18.28 for the 10 month period 10/1/84 - 8/1/85. H-103/2A

At HQS branch there are three \$100 funds but currently there are two custodians. The reason for having more than one fund is so reimbursement can be obtained even if one custodian is absent. The cash funds are kept in individual key locked cash bags in a combination locked cash box inside a safe. Only one person, the supervisor, has the combination to the cash box. In her absence the reason for having more than one fund is lost, since no one else can get to their fund. H-103/6

ASS  
Cynthia  
acct.

Even though fund balances are very small, evaluate need for eight petty cash funds.

Due to infrequent activity in funds, during evaluation consider closing the funds altogether.

12/31/84

act  
8/26

5. GEHA currently receives a check from payroll for the amount of payroll withholdings and Agency contributions for health insurance. Each monthly check averages \$1.3 million. These checks are carried and deposited to American Security Bank. The same day a check is sent to OPM for transferring the payroll withholdings.

However, during 1984 there were instances where the payroll check was not deposited upon receipt. The workday delay between receipt of the check from payroll and the deposit into the bank account ranged from 0 to 10 days. In the worst instance 15 days of interest was lost on a \$1.3 million delayed deposit.

Consider electronic fund transfer (EFT) of the withholdings from payroll to either American Security or directly to OPM.

IC/IOB has discussed with the incoming C/Monetary. Will follow-up when C/Monetary is in position.

6. We were unable to locate a policyholder file to support a death claim payment of \$36000. The only supporting documentation was a memo from C/Retirement Affairs to C/Retirement Pay Branch which stated that the individual was deceased. We could not review the necessary death certificate.

Continue efforts to locate file.

OTHER  
MATTER

4-2/1

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talked to  
C/Monetary  
& they  
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to deposit to  
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Monetary they  
are helpful  
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capability  
even 10 years  
have personnel  
a memo request  
sent.

OTHER  
MATTER

4-EBB

Records  
Center

STAT

7. The CHI premium accounts (#217 and #298) still are not reconciled with supporting records even though this procedure has been an audit recommendation for the past two reports. The GEHA response to the last recommendation was that, with audit staff assistance, GEHA was manually reconciling the individual accounts for 1984. A member of the audit staff met with appropriate officials in and assisted in the beginning of the reconciliation process. However, these reconciliations were never completed by GEHA.

→ RECOM: Reconcile CHI premium accounts at least quarterly.

8. Prenumbered cash receipts are given to individuals who remit payments for insurance premiums, but the receipts are not retained by insurance branch. The receipts are used to complete the policy and to balance the daily cash balance and are then disposed. For example, a prenumbered receipt is issued to an air flight policy purchaser, the policy is completed, a second prenumbered receipt (not a copy of the one given to the purchaser) is completed and attached to the policy for support. GEHA's copy of the original prenumbered receipt is destroyed after the daily cash is balanced. The purpose of prenumbered receipts is to verify that all cash received is recorded in GEHA's records. Without receipts there is no verification.

Secondly, there is a lack of segregation of duties for premiums, cash checks, received. The insurance cashier

REPORT

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demi

and  
auditors re  
GEHA money  
payments before  
underwritten.

C/EBB to  
disburse w/  
paper.

Q-A/2

Q-B/2

C-2/3

def  
8/27

receive payments for advance premiums, issue a receipt for which a copy does not become part of the audit trail, and they update the subsidiary records for the payments received. Furthermore, the cashiers also have edit capability for the subsidiary accounts. Segregation of duties is an important internal control to prevent errors and malfeasance.

Consider limiting the cashier's edit capability. ✓

Retain a copy of prenumbered receipt issued to policyholder for verification to records.

\* Consider a multi part, prenumbered form to streamline current procedures. ✓

Report  
see  
early  
for  
9. GEHA has not complied with the prior audit report recommendation or with their report response regarding preparation of financial statements. ✓ D-3/2

Report  
Auditing  
"Report"  
10. During 1984 GEHA personnel worked overtime (OT) hours but did not receive compensation for all the OT hours worked. The weekly reports for 10/5/84-12/8/84 stated that 95 1/2 hours of overtime had been donated by both exempt and nonexempt personnel. The Fair Labor Standards Act requires that non-exempt employees be paid for all worktime exceeding 40 hours in a week which the company has not performed. ✓ E-7/10

12/31/84

aef  
8/27

GEHA should determine which employees who worked "donated" OT were non exempt, determine how much OT was donated and reimburse the employees affected.

Dottie:

Based on the audit report recommendations concerning the Cashiers Office procedures, the following has been implemented:

Recommendation #3.

A copy of the prenumbered cash receipts (Form 102a) is now being attached to the cash vouchers; the original receipts are still being issued to the policyholders.

Recommendation #4

The duties of receiving and recording daily cash transactions are now being handled by two cashiers.

Recommendation #5

The daily cash vouchers are now being edited by the cashier who does not process the main portion of the voucher. The editing is done the morning after the voucher has been prepared.

Sylvia

Recommendation #7

CHI is now being reconciled monthly by the Insurance Assistant responsible for the program. The Insurance Assistant is not an accountant, therefore, he has devised his own method for reconciling the account.

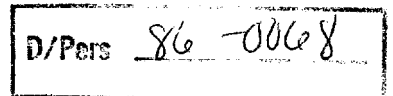
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*daily cash voucher*

11-4-85  
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Post Office Box 463  
Washington, D.C. 20044

Office of the  
President

19 JAN 1986

Ms. Jean M. Barber  
Executive Assistant Director  
for Actuarial Analysis and Insurance  
Office of Personnel Management  
1900 E Street, Room 3415  
Washington, D.C. 20415

Dear Ms. Barber:

This is in response to the letter from Kevin Burns dated November 27, 1985, requesting our comment on Audit Report No. E-86-004 of the Joseph E. Jones Agency which covers the period of 1981 and 1982. We have reviewed this Audit Report and will comment briefly on the two points that are contested by the Joseph E. Jones Agency.

Audit Finding No. 1 involves the rent charged to the Plan by the Jones Agency in excess of the cost of ownership of the premises occupied. In discussions with representatives of the Joseph E. Jones Agency, we have learned that this issue was reported in the previous draft Audit Report No. 82-3 003-D (1976-80) and that a final audit report was not issued for those years. However, we note that the current Audit Report does indicate the issue was previously resolved. Because it appears to us that the Office of Personnel Management and Joseph E. Jones Agency have differing views concerning the resolution of this issue, we would recommend that a meeting between OPM and Joseph E. Jones Agency would be in order to resolve this issue.

Audit Finding No. 4 involves the overcharge for salaries and payroll taxes during the period of July and August 1982 when responsibility for the administration of the Plan was transferred to Mutual of Omaha. We understand that Joseph E. Jones Agency has the necessary documentation to prove that no overcharge occurred.

Audit Finding No. 5, adjustments to the overhead, will be resolved upon resolution of Audit Finding Nos. 1 through 4.

This Audit Report appears to be thorough and well done. Thank you for providing us with the opportunity to review and comment. We look forward to your advising us of the final resolution of the contested points outlined above. If there is any additional information that you require, please contact

Sincerely,

*JS* President

Comments Provided by IG/Audit Staff on OPM Audit

STAT

[redacted] IG/Audit Staff, reviewed the OPM Audit Report on the Joseph E. Jones Agency for 1981 and 1982 and provided the following comment:

1. Our comments are just additional input to the Contracting Officer at OPM who will make the final decision on the resolution of the Audit Findings.
2. OGC should comment on the rent versus ownership. Their comment is attached.
3. Jones Agency should provide evidence on the salary question. Harris Havard tells me that they have the evidence and provided it to the auditors previously so they do not understand the finding. OPM denies seeing the documentation so Jones Agency will provide again.
4. Overhead rates (Audit Finding No. 5) -- Dave said that depending on the resolution of the previous items, the overhead must be adjusted accordingly so this is not really a contested item.
5. He said there were no problems on any of the items with which Jones Agency agreed. The two major points were the Rent and the Salaries.

OGC-85-53850

31 December 1985

MEMORANDUM FOR: Chief, Insurance Operations Division

STAT  
FROM:

  
Assistant General Counsel

SUBJECT: Office of Personnel Management Audit  
Report #E-86-004 GEHA

1. In your memorandum of 23 December 1985, you inquired concerning Audit Finding No. 1 as it regards the Federal Procurement Regulation, the issue of rent versus ownership, and its impact on our GEHA program.

2. From a legal standpoint, we agree that the Federal Procurement Regulation at 41 CFR 1-15.205-34(g) has the meaning attributed to it in the Audit Findings. It appears, however, that the Administrator and the Inspector General have different views concerning the facts involved here. Inasmuch as these facts will be the determining factor, we would recommend that the Inspector General and the Administrator negotiate a reasonable compromise on this question.

3. As to past services, due to the fact that the services were incurred several years ago, I don't believe any adjustments could be made in a manner that would be equitable to all parties. We would therefore anticipate problems with "Recommended Corrective Action a." If it is not possible to disallow \$23,442, and do so in an equitable fashion, you may wish to simply drop the matter. The same would hold for "Recommended Corrective Action b" and "Recommended Corrective Action c."

4. As to future contracts, we would suggest that the Inspector General and the Administrator make some sort of accommodation so that similar disagreements would be avoided in the future.

  
STAT



Office of  
Personnel Management

Washington, D.C. 20415

In Reply Refer To

Your Reference

STAT

[Redacted]  
Government Employees Health  
Association, Inc.  
P.O. Box 463  
Washington, D.C. 20044

NOV 27 1985

STAT

[Redacted]  
Enclosed are four copies of the Office of Personnel Management's audit report No. E-86-004 of your third party administrator, Joseph E. Jones Agency. This audit was prepared by representatives of the Office of Inspector General pursuant to contract number CS 1065 5 CFR Chapter 1, Part 890, and 41 CFR Chapter 1.

Please acknowledge your receipt of this report within ten days.

The Joseph E. Jones Agency administered several FEHB plans during the period covered by this audit. This report, therefore, is only one of several reports issued on that agency's FEHB administration activities. Because the report covers Joseph E. Jones' activities, we have sent an information copy directly to them.

OPM looks to you as prime contractor to respond to the issues raised in the audit. Because there are several different FEHB Plans involved in the results of this audit all dealing with essentially similar questions, the Joseph E. Jones agency has designated Mr. Harris Havard as the central contact point between your plan and the agency. Mr. Havard may be reached on (202) 797-6725.

Please review the report's recommendations and provide a written response within 45 days of your receipt of the report.

Sincerely,

*Kevin J. Burns*  
Kevin J. Burns, Assistant Director  
for Insurance Programs

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Government Employees  
• Health Association •

*File: OPM  
Audit*

Post Office Box 463  
Washington, D.C. 20044

Office of the  
President

Ms. Jean M. Barber  
Executive Assistant Director  
for Actuarial Analysis and Insurance  
Office of Personnel Management  
1900 E Street, Room 3415  
Washington, D.C. 20415

Dear Ms. Barber:

This is in response to the letter from Kevin Burns dated November 27, 1985, requesting our comment on Audit Report No. E-86-004 of the Joseph E. Jones Agency which covers the period of 1981 and 1982. We have reviewed this Audit Report and will comment briefly on the two points that are contested by the Joseph E. Jones Agency.

Audit Finding No. 1 is the question of the charges of rent in excess of the cost of ownership. In discussions with representatives of the Joseph E. Jones Agency, we have learned that this issue was reported in draft Audit Report No. 82-3 003-D (1976-80) and that a final audit report was not issued for those years. However, the current Audit Report does indicate the issue was previously resolved. Because it appears that the Office of Personnel Management and Joseph E. Jones Agency have differing views concerning the facts involved here, we suggest that a reasonable compromise be negotiated. Audit Finding No. 4 involves the overcharge for salaries and payroll taxes during the period of July and August 1982 when responsibility for the administration of the Plan was transferred to Mutual of Omaha. We understand that Joseph E. Jones Agency has the necessary documentation to prove that no overcharge occurred. Once Audit Finding Nos. 1 and 2 are resolved, the necessary overhead adjustments can be made to resolve Audit Finding No. 5.

This Audit Report appears to be thorough and well done. Thank you for providing us with the opportunity to review and comment. We look forward to your advising us of the final resolution of the contested points outlined above. If there is any additional information that you require, please contact

Sincerely,

PRESIDENT

Comments Provided by IG/Audit Staff on OPM Audit

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[REDACTED] IG/Audit Staff, reviewed the OPM Audit Report on the Joseph E. Jones Agency for 1981 and 1982 and provided the following comment:

1. Our comments are just additional input to the Contracting Officer at OPM who will make the final decision on the resolution of the Audit Findings.
2. OGC should comment on the rent versus ownership. Their comment is attached.
3. Jones Agency should provide evidence on the salary question. Harris Havard tells me that they have the evidence and provided it to the auditors previously so they do not understand the finding. OPM denies seeing the documentation so Jones Agency will provide again.
4. Overhead rates (Audit Finding No. 5) -- Dave said that depending on the resolution of the previous items, the overhead must be adjusted accordingly so this is not really a contested item.
5. He said there were no problems on any of the items with which Jones Agency agreed. The two major points were the Rent and the Salaries.

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OGC-85-53850

31 December 1985

MEMORANDUM FOR: Chief, Insurance Operations Division

FROM: 

Assistant General Counsel

SUBJECT: Office of Personnel Management Audit  
Report #E-86-004 GEHA

1. In your memorandum of 23 December 1985, you inquired concerning Audit Finding No. 1 as it regards the Federal Procurement Regulation, the issue of rent versus ownership, and its impact on our GEHA program.

2. From a legal standpoint, we agree that the Federal Procurement Regulation at 41 CFR 1-15.205-34(g) has the meaning attributed to it in the Audit Findings. It appears, however, that the Administrator and the Inspector General have different views concerning the facts involved here. Inasmuch as these facts will be the determining factor, we would recommend that the Inspector General and the Administrator negotiate a reasonable compromise on this question.

3. As to past services, due to the fact that the services were incurred several years ago, I don't believe any adjustments could be made in a manner that would be equitable to all parties. We would therefore anticipate problems with "Recommended Corrective Action a." If it is not possible to disallow \$23,442, and do so in an equitable fashion, you may wish to simply drop the matter. The same would hold for "Recommended Corrective Action b" and "Recommended Corrective Action c."

4. As to future contracts, we would suggest that the Inspector General and the Administrator make some sort of accommodation so that similar disagreements would be avoided in the future.



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12/31/84

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8/24

REPORT

1. The GEHA investment objectives and instructions have not been formally agreed to with BEA. At the Oct 1982 Board meeting the Board agreed to the Investment Committee's proposed expansion of GEHA's objectives and instructions to BEA; namely a 70% fixed asset / 30% equity split with the 70% portion further divided into 1/3 short term, 1/3 intermediate, and 1/3 longer term securities. This information was outlined to BEA in Nov 1982 and BEA subsequently assessed the proposal. The Investment Committee's strategy has never been contractually agreed to with BEA.

During 1984 BEA's quarterly reports stated an 80% / 20% split. I-B/2

Recommendation: Reevaluate investment objectives and formalize agreement on investment strategy.

2. A comparison between the 12/31/84 BEA investment listing and the 12/31/84 American Security listing revealed a discrepancy in GNMA bonds held for GEHA. BEA reported a balance of \$291,719 whereas ASB reported \$289,220 resulting in a \$2499 difference.

I-B  
15a

PASS

The auditor discovered that BEA had transposed the number of shares but would correct their error immediately.

GEHA bookkeeper should verify correction on next BEA quarterly

GEHA

SUMMARY OF FINDINGS

12/31/84

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8/26

2nd  
Board  
Approval

3. In Sep 1984 a checking account (#101.3) was opened without the Board of Director's approval. This account replaced a/c #101.2 which was closed in April 1984.

Have Board ratify, retroactively, the opening of the account.

4. GEHA has 5 individuals with petty cash funds at Ames ranging from \$10 - \$60 and totaling \$160. Use of these accounts is infrequent. For example, on 8 Aug 1985 the \$50 fund contained receipts totaling \$18.28 for the 10 month period 10/1/84 - 8/1/85. H-103/2A

At HQS branch there are three \$100 funds but currently there are two custodians. The reason for having more than one fund is so reimbursement can be obtained even if one custodian is absent. The cash funds are kept in individual key locked cash bags in a combination locked cash box inside a safe. Only one person, the supervisor, has the combination to the cash box. In her absence the reason for having more than one fund is lost, since no one else can get to their fund. H-103/6

Even though fund balances are very small, evaluate need for eight petty cash funds.

Due to infrequent activity in funds, during evaluation consider closing the funds altogether.

12/31/84

act  
8/26

5. GEHA currently receives a check from payroll for the amount of payroll withholdings and Agency contributions for health insurance. Each monthly check averages \$1.3 million. These checks are carried and deposited to American Security Bank. The same day a check is sent to OPM for transferring the payroll withholdings.

However, during 1984 there were instances where the payroll check was not deposited upon receipt. The workday delay between receipt of the check from payroll and the deposit into the bank account ranged from 0 to 10 days. In the worst instance 15 days of interest was lost on a \$1.3 million delayed deposit.

Consider electronic fund transfer (EFT) of the withholdings from payroll to either American Security or directly to OPM.

DC/IOD has discussed with the incoming C/Monetary. Will follow-up when C/Monetary is in position.

6. We were unable to locate a policyholder file to support a death claim payment of \$36000. The only supporting documentation was a memo from C/Retirement Affairs to C/Retirement Pay Branch which stated that the individual was deceased. We could not review the necessary death certificate.

Continue efforts to locate file.

8/27

REPORT  
Q-A/1  
7. The CHI premium accounts (#217 and #298) still are not reconciled with supporting records even though this procedure has been an audit recommendation for the past two reports. The GEHA response to the last recommendation was that, with audit staff assistance, GEHA was manually reconciling the individual accounts for 1984. A member of the audit staff met with appropriate officials in and assisted in the beginning of the reconciliation process. However, these reconciliations were never completed by GEHA.

RECOM: Reconcile CHI premium accounts at least quarterly.

Q-B/2  
8. Prenumbered cash receipts are given to individuals who remit payments for insurance premiums, but the receipts are not retained by insurance branch. The receipts are used to complete the policy and to balance the daily cash balance and are then disposed. For example, a prenumbered receipt is issued to an airflight policy purchaser, the policy is completed, a second prenumbered receipt (not a copy of the one given to the purchaser) is completed and attached to the policy for support. GEHA's copy of the original prenumbered receipt is destroyed after the daily cash is balanced. The purpose of prenumbered receipts is to verify that all cash received is recorded in GEHA's records. Without receipts there is no verification.

Q-A/2  
Secondly, there is a lack of segregation of duties for premiums, cash and checks received. The insurance cashier C-2/3

12/31/84

Ref  
8/27

receive payments for advance premiums, issue a receipt for which a copy does not become part of the audit trail, and they update the subsidiary records for the payments received. Furthermore, the cashiers also have edit capability for the subsidiary accounts. Segregation of duties is an important internal control to prevent errors and malfeasance.

Consider limiting the cashier's edit capability.

Retain a copy of prenumbered receipt issued to policyholder for verification to records.

Consider a multipart, prenumbered form to streamline current procedures.

9. GEHA has not complied with the prior audit report recommendation or with their report response regarding preparation of financial statements.

D-2 1/2

10. During 1984 GEHA personnel worked overtime (OT) hours but did not receive compensation for all the OT hours worked. The weekly reports for 10/15/84-12/8/84 stated that 95 1/2 hours of overtime had been donated by both exempt and nonexempt personnel. The Fair Labor Standards Act requires that non-exempt employees be paid for all worktime exceeding 40 hours in a week which the employer suffers or permits to be performed.

E-7 1/2

GEHA  
SUMMARY OF FINDINGS

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GEHA should determine which employees who worked "donated" or were non exempt, determine how much OT they donated, and reimburse the employees involved.